Dialing for D Marks:[Atlantic Edition]

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Author(s):	MICHAEL MEYER
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Abstract (Article Summary)

Bigger U.S. companies are also jumping into the fray, some with plans to construct what amount to massive, wholly owned private telecommunications systems. One is WorldCom, the fast-growing long- distance company that gobbled up giant MCI a few months ago. By the end of the year it will have spent $3 billion building a fiber-optic network linking Europe's major financial centers: London, Amsterdam, Brussels, Frankurt, Paris, Zurich and Rome. Another U.S. company, Esprit, is building a similarly ambitious network; it moved its headquarters to Britain several years ago in order to be closer to the action. AT&T and Sprint have allied with European partners in almost every country, taking aim on local as well as international long distance and wireless markets. So have the so-called Baby Bells.

Americans, in particular, are moving in hard and early. "We have the most experience in deregulated markets," explains [MICHAEL MAHONEY], who predicts that U.S. companies will undercut European rivals not only with steep price cuts but also an unmatched quality of service. In Europe many consumers have yet to benefit from telephone services Americans take for granted: itemized bills identifying each call and its duration, prompt repair and installation, caller ID and call waiting, flat rates for local, long-distance and Internet service. "That's a big advantage," Mahoney believes. Viatel's surveys, for instance, show that customers would be willing to abandon giant Deutsche Telekom for as little as a 10 percent discount as long as they receive U.S.-style service. Mahoney expects his company's revenues to grow from $80 million last year to $500 million by 2001-- and break the $1 billion mark a few years later.

Full Text (1117 words)

EUROPE

EUROPE'S PHONE WARS

DIALING FOR D MARKS

MICHAEL MEYER

WITH STEFAN THEIL IN BERLIN AND SUZANNE MILLER IN LONDON

THE PHONE WARS HIT AS THE WORLD'S LARGEST TELECOM MARKET IS SUDDENLY UP FOR GRABS. HOW WILL THE 'BIG BANG' CHANGE EUROPE?

MICHAEL MAHONEY remembers the skeptics. He was pitching a plan for breaking into Europe's telecommunications market to a group of potential French investors. Deregulation would come to Europe as it had to America, he told them. Small entrepreneurial companies like his would grab a huge chunk of business away from big, state-owned monopolies, just as they had from AT&T. "You naive Americans," the money-men replied. "Things do not happen that way in Europe." A few years later Mahoney's little company, Viatel Inc. in New York, is poised to prove his doubters wrong in the wildest and (as of last Thursday) the widest-open communications market in the world. "The opportunities," he says, "are enormous."

They call it the Big Bang. On Jan. 1 the European Union opened its long-closed telecommunications industry to full competition. The contrast to the United States is stark. There deregulation has proceeded piecemeal; only last week a federal judge struck down a key provision of the 1996 Telecommunications Act restricting local phone companies' entry into long distance. In Europe nothing is sacred. The free-for-all extends to local as well as long-distance calling, voice as well as data, fixed telephony in homes and businesses as well as mobile and wireless. "It could be bloody," says Susan Passoni at Cowan & Co. in Boston. Victory in Europe's telecom wars will go to the nimble and the quick, she predicts. Consumers should benefit from sharply falling prices. And if lower communications costs and an infusion of Information Age technology translates into greater productivity and faster growth, Europe's economies should prosper, too.

Given the stakes, it's no surprise that scores of hungry competitors are pushing in. Europe's huge, $200 billion market-with 34 percent of the world's telephone lines--is the biggest there is. And as befits the ideal of a borderless Europe, the newcomers hail from everywhere. France Telecom, for instance, finds itself besieged by a venture spearheaded by British Telecom, backed by America's Southwestern Bell and the French utility company Generale des Eaux. In Germany, giant Deutsche Telekom faces off against two multinational alliances: one a partnership of British Telecom and the German utility conglomerate, Viag Interkom, the other a new powerful conglomerate known as Arcor, comprising Germany's Mannesmann, the German national railroad, Deutsche Bank and a host of international phone companies including AT&T. Deutsche Telekom itself has joined forces with France Telecom and Sprint in yet another big alliance, Global One.

Americans, in particular, are moving in hard and early. "We have the most experience in deregulated markets," explains Mahoney, who predicts that U.S. companies will undercut European rivals not only with steep price cuts but also an unmatched quality of service. In Europe many consumers have yet to benefit from telephone services Americans take for granted: itemized bills identifying each call and its duration, prompt repair and installation, caller ID and call waiting, flat rates for local, long-distance and Internet service. "That's a big advantage," Mahoney believes. Viatel's surveys, for instance, show that customers would be willing to abandon giant Deutsche Telekom for as little as a 10 percent discount as long as they receive U.S.-style service. Mahoney expects his company's revenues to grow from $80 million last year to $500 million by 2001-- and break the $1 billion mark a few years later.

Bigger U.S. companies are also jumping into the fray, some with plans to construct what amount to massive, wholly owned private telecommunications systems. One is WorldCom, the fast-growing long- distance company that gobbled up giant MCI a few months ago. By the end of the year it will have spent $3 billion building a fiber-optic network linking Europe's major financial centers: London, Amsterdam, Brussels, Frankurt, Paris, Zurich and Rome. Another U.S. company, Esprit, is building a similarly ambitious network; it moved its headquarters to Britain several years ago in order to be closer to the action. AT&T and Sprint have allied with European partners in almost every country, taking aim on local as well as international long distance and wireless markets. So have the so-called Baby Bells.

For all the commotion, no one expects genuine competition to emerge overnight. For one thing, it takes a longtime to build a business. Consider the German wireless group Arcor. Despite big advertising campaigns and gobs of media attention, the venture registered only 40,000 calls on its opening day--this in a country of 80 million. "We have to do a lot more to reach the consumer," said a spokesman. "We honestly have no idea of how many customers to expect." It's also clear that Europe's established monopolies won't cede turf without a fight. Indeed, the clock had barely struck midnight on the first day of competition before a bitter fight erupted between Dentsche Telekom and its rivals, which accused the monopoly of charging a higher fee for rerouting clients to competitors than Europe's new regulations permit. Meanwhile, Belgium and Italy are being sued by the European Commission for dragging their feet on telecommunications reform. Other countries--such as Spain, Portugal or Greece--also are far behind.

Still, there's no underestimating the immensity of the changes sweeping Europe. Change may come more gradually than boosters suggest, but come it will. Most experts believe that deregulation will have begun producing clear gains by the end of this year. Germany's phone company has already cut some international long- distance rates by 45 percent, hoping to preempt competitors. Similar cuts will doubtless come elsewhere. For example, the cost of

leasing a high-speed private line between London and Rome on Dec. 31 was roughly $75,000. The same line in the United States--stretching, say, from New York to Montreal--would be about $5,000. The economics of Europe's newly open market suggest that those prices will converge before too long. If so, European telephone customers may well benefit from deregulation in the same measure consumers did in the United States or Japan, where the cost of international and long-distance calls declined by 40 to 60 percent with competition. That's not a bad New Year's gift. And what a refutation of the skeptics.

PHOTOS (COLOR): Hungry competitors are pushing in from everywhere: A German satellite unit dwarfs a church near Bonn, a French telecom station in the Pyrenees

Subject Terms: TELECOMMUNICATION -- Europe

[Illustration]
Caption: PHOTOS (COLOR): Hungry competitors are pushing in from everywhere: A German satellite unit dwarfs a church near Bonn, a French telecom station in the Pyrenees

Credit: MICHAEL MEYER ; With STEFAN THEIL in Berlin and SUZANNE MILLER in London

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WASHINGTON BUSINESS JOURNAL

ENTERPRISE

A Technological Tale

Mom and pops splurge on '90s gadgetry and hope for a storybook ending.

Chet Dembeck
Staff Reporter

Home entrepreneurs consider technology a necessary evil. Others embrace it with open arms.

Either way, issues of cost, reliability and training should be factored into any equation that claims technology more than pays for itself.

Rockville-based My Organic Market is one company that recently learned this lesson.

Today, customers hear new-age music when they're put on hold at My Organic Market. They also have their produce weighed on computerized scales and are quickly checked out at programmed terminals. But the place wasn't always so technologically advanced. Scott Nash, who started the market 11 years ago in his mom's garage with $100, had to be dragged kicking and screaming into the technology age.

"We billed everything using handwritten, carbon-copied invoices," the 33-year-old said.

This was OK when most of Nash's business was mail order and delivery. It also was OK when his store was grossing $5,000 a week.

But when he moved his store to a 900-square-foot space in Beltsville, he was forced to upgrade -- from calculators to adding machines. Even that technological leap wasn't good enough for his new customers.

"They didn't like the fact that their receipts weren't itemized," he said.

By the time his little grocery business was grossing $95,000 a week and taking up 11,300 square feet in Rockville, Nash had no other choice but to take a plunge. In April 1996, he bought three computerized registers and a computerized scale at $5,000 a pop. Nash said this was a small price to pay to keep his customers happy.

"I figure it speeds up checkout process by 20 percent," he said.

On the day of the inaugural run, the hand-held calculators were stored in mothballs somewhere and the hum of technology filled the store. Business was booming and everything was running smoothly -- then, disaster.

"The whole system went down and we had to give product away," Nash recalled.

Luckily, the computer vendor had two technicians on hand and the problem was fixed within the hour. But in the meantime, Nash and his employees were back to hand-held calculators and paging through a catalog of produce prices. Some of them even guesstimated costs to keep the line moving.

"We rounded off in the customer's favor," Nash said.

The damage: several hundred dollars.

A few weeks later, Nash learned another valuable lesson: Human error plus technology equals lost profits.

When he first purchased the system, Nash and his 40 employees were trained and became proficient in operating the equipment. But since prices on produce frequently change, new prices have to be inputted into the computerized scale daily. If the wrong price is entered, it could cost plenty.

"One day we would have never known our prices were too low, if an honest customer hadn't told us," Nash said.

Estimated loss: $200.

It's technical glitches like this that make Nash, unlike some of his competitors, resistant to adding scanners. The argument for scanners is efficiency and speed, which equates to more profits. However, Nash takes issue with this scenario.

"First of all, I'd have to hire a full-time data entry person, which would cost me about $30,000," Nash said.

In addition, he pointed out, if prices are inputted incorrectly, it means either overcharging or undercharging customers -- which is a no-win situation.

Nash said scanners are just one example of how the latest, greatest technology is not necessarily right for every business owner.

"It's a question of finding the right balance," he said.

Making dough

Some entrepreneurs adopt Nash's cautious ambivalence toward technology, while others take the opposite stance.

Adam Greenberg has always embraced technology. Three years ago, the 27-year-old Greenberg purchased Potomac-based Potomac Pizza and replaced the shop's antiquated equipment by spending $28,000 on five new computer terminals. It's an investment that Greenberg has found well worth it, particularly from a customer service standpoint.

When a customer calls in an order, the computer stores it. The next time the same customer calls, the system automatically displays the customer's name and last order. The worker greets the customer by name and asks them if they want the same kind of pizza they ordered last time.

"The customers really like this," Greenberg said.

So does he. It has sped up the order-taking process, enabling Greenberg to gross $2 million this year. He's been so happy with his foray into technology, Greenberg is ready to plunk down an additional $36,000 to make the terminals even faster.

"The upgrade will cut the time it takes for a customer's order to show up on the terminal from 10 seconds to one second," Greenberg explained.

But equally important to Greenberg is how the technology has cut down on in-house theft at his mostly cash business. Each worker at Potomac Pizza is assigned a number. Every time they ring up a sale they must use it. At the end of the day, a separate printout is made for each employee. If there is a cash shortage, the worker pays.

While some may accuse Greenberg of being extravagant he disagrees.

"A lot of people go the cheap route," Greenberg explained. "But technology is the equalizer that lets mom and pops compete with the chains."

Headache or Cure?

For Greenberg, technology may be the great equalizer, but for many mom-and-pops, it's the great unknown. It can mean trading in a familiar set of headaches for a foreign set.

And it definitely means making a big investment in a procedure that is not guaranteed.

Overcoming the price tag is one thing, but small business owners hang their hats on personal service, and there's nothing personal about technology. Computerization can make them feel less connected to the customer. But even with his trials and tribulations, Nash said technology has helped his business grow. Using technology to compliment, but not dominate, your operation, he said, is the trick.

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